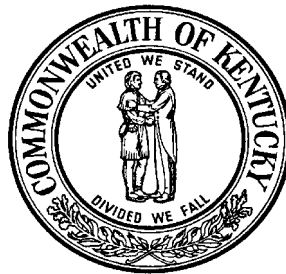


**REPORT OF THE AUDIT OF THE  
MUHLENBERG COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2001**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**MUHLENBERG COUNTY FISCAL COURT**

**For The Fiscal Year Ended**  
**June 30, 2001**

The Auditor of Public Accounts has completed the Muhlenberg County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Cash balances decreased by \$3,760,185 from the beginning of the year, resulting in a cash surplus of \$2,066,842 as of June 30, 2001.

**Debt Obligations:**

Total debt principal outstanding as of June 30, 2001, was \$8,445,000. Future collections of \$13,381,748 are needed to pay all debt principal and interest.

**Report Comments:**

- The County Should Comply With Grant Agreements
- The Coroner Should Be Properly Bonded
- All Debt Should Be Properly Disclosed On The Quarterly Financial Statement

**Deposits:**

The Fiscal Court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Rodney Kirtley, Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Muhlenberg County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Muhlenberg County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Muhlenberg County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Muhlenberg County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2002 on our consideration of Muhlenberg County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Muhlenberg County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Comply With Grant Agreements
- The Coroner Should Be Properly Bonded
- All Debt Should Be Properly Disclosed On The Quarterly Financial Statement

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 4, 2002



MUHLENBERG COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

**Fiscal Court Members:**

Rodney Kirtley	County Judge/Executive
Malcolm West	Magistrate
Phil O'Neal	Magistrate
Jim McDonald	Magistrate
Daniel Bowles	Magistrate
Terry Benton	Magistrate

**Other Elected Officials:**

Darris Russell	County Attorney
Willie Justice	Jailer
Gaylan Spurlin	County Clerk
Janet Hearald	Circuit Court Clerk
Jerry Mayhugh	Sheriff
Bill Alward	Property Valuation Administrator
Tony Armour	Coroner

**Appointed Personnel:**

Charles Lewis	County Treasurer
---------------	------------------



STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS



MUHLENBERG COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 154,953	
Receivable (Note 4)	173,958	

Road and Bridge Fund:

Cash	55,152	
------	--------	--

Jail Fund:

Cash	30,011	
------	--------	--

Local Government Economic Assistance Fund:

Cash	169	\$ 414,243
------	-----	------------

Special Revenue Fund Type

Job Training Fund:

Cash	\$ 7,397	
------	----------	--

Pennyrile Narcotics Task Force Fund:

Cash	30,206	37,603
------	--------	--------

Capital Projects Fund Type

Judicial Center Corporation Fund:

Cash	\$ 711,089	
------	------------	--

Jail Construction Fund:

Cash	25,838	
Investments	1,080,000	1,816,927

Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for Waterline		
Construction Capital Lease Principal (Note 7)		100,000

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

Assets and Other Resources (Continued)

Other Resources (Continued)

General Fund Type (Continued)

General Fund (Continued):

Amounts to be Provided in Future Years for Re-Tek, Inc. Principal Payments (Note 6)	\$ 200,000
----------------------------------------------------------------------------------------	------------

Jail Fund:

Amounts to be Provided in Future Years for Detention Facility Project Bond Payment (Note 6)	6,895,000
------------------------------------------------------------------------------------------------	-----------

Capital Projects Fund Type

Judicial Center:

Amounts to be Provided in Future Years for Justice Center Project Principal Payments (Note 5)	<u>1,250,000</u>
--------------------------------------------------------------------------------------------------	------------------

Total Assets and Other Resources	<u><u>\$ 10,713,773</u></u>
----------------------------------	-----------------------------

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Deferred Revenue (Note 4)	\$ 173,958	
Note Payable (Note 6)	200,000	
Capital Lease (Note 7)	<u>100,000</u>	\$ 473,958

Jail Fund:

Bonds Not Matured (Note 6)	6,895,000
----------------------------	-----------

Special Revenue Fund Type

Rails To Trails Fund:

Bank Overdraft	27,973
----------------	--------

Capital Projects Fund Type

Judicial Center Fund:

Note Payable (Note 5)	1,250,000
-----------------------	-----------

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Reserved:

Special Revenue Fund Type

Job Training Fund	\$	7,397	
Rails To Trails Fund		(27,973)	
Pennyrile Narcotics Task Force Fund		<u>30,206</u>	\$ 9,630

Capital Projects Fund Type

Judicial Center Fund	\$	711,089	
Jail Construction Fund		<u>1,105,838</u>	1,816,927

Unreserved:

General Fund Type

General Fund	\$	154,953	
Road and Bridge Fund		55,152	
Jail Fund		30,011	
Local Government Economic Assistance Fund		<u>169</u>	<u>240,285</u>

Total Liabilities and Fund Balances			<u>\$ 10,713,773</u>
-------------------------------------	--	--	----------------------

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MUHLENBERG COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	<u>General Fund Type</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 7,479,178	\$ 3,919,683	\$ 1,096,571	\$ 386,165
Transfers In	1,338,811	200,000	483,750	282,450
Loan Proceeds	1,250,000			
Total Cash Receipts	<u>\$ 10,067,989</u>	<u>\$ 4,119,683</u>	<u>\$ 1,580,321</u>	<u>\$ 668,615</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 11,941,463	\$ 3,442,030	\$ 1,596,423	\$ 792,973
Land Purchases	540,900			
Transfers Out	1,338,811	838,811		
Capital Lease - Principal Paid	7,000	7,000		
Total Cash Disbursements	<u>\$ 13,828,174</u>	<u>\$ 4,287,841</u>	<u>\$ 1,596,423</u>	<u>\$ 792,973</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (3,760,185)	\$ (168,158)	\$ (16,102)	\$ (124,358)
Cash Balance - July 1, 2000	<u>5,827,027</u>	<u>323,111</u>	<u>71,254</u>	<u>154,369</u>
Cash Balance - June 30, 2001	<u><u>\$ 2,066,842</u></u>	<u><u>\$ 154,953</u></u>	<u><u>\$ 55,152</u></u>	<u><u>\$ 30,011</u></u>

\* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

Local Government Economic Assistance Fund	Special Revenue Fund Type			Capital Projects Fund Type	
	Job Training Fund	Rails To Trails Fund	Pennyrile Narcotics Task Force Fund	Public Properties Corporation Judicial Center Fund	Jail Construction Fund
\$ 413,549 150,000	\$ 611,984 152,611	\$ 169,842	\$ 715,522 70,000	\$ 1,989	\$ 163,873
				1,250,000	
\$ 563,549	\$ 764,595	\$ 169,842	\$ 785,522	\$ 1,251,989	\$ 163,873
\$ 438,568 150,000	\$ 607,198 150,000	\$ 147,815	\$ 594,771 200,000	\$ 540,900	\$ 4,321,685
\$ 588,568	\$ 757,198	\$ 147,815	\$ 794,771	\$ 540,900	\$ 4,321,685
\$ (25,019) 25,188	\$ 7,397 0	\$ 22,027 (50,000)	\$ (9,249) 39,455	\$ 711,089 0	\$ (4,157,812) 5,263,650
					*
\$ 169	\$ 7,397	\$ (27,973)	\$ 30,206	\$ 711,089	\$ 1,105,838

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Muhlenberg County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Muhlenberg County Public Properties Corporation as part of the reporting entity.

Muhlenberg County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, fiscal court is financially accountable for the PPC, legally entitled to the PPC's resources, as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Muhlenberg County's financial statements.

Additional - Muhlenberg County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Muhlenberg County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Muhlenberg County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

MUHLENBERG COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Muhlenberg County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Job Training Fund, Rails To Trails Fund, and the Pennyrite Narcotics Task Force Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Judicial Center Fund and the Jail Construction Fund of the Fiscal Court are reported as Capital Projects Fund Types.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Muhlenberg County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MUHLENBERG COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Public Properties Corporation Fund. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposit and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

MUHLENBERG COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2001  
 (Continued)

Note 3. Deposit and Investments (Continued)

A. Deposits (Continued)

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

B. Investments

The County's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the County or by the County's agent in the County's name. Category 2 includes uninsured and unregistered investments where the securities were held by the financial institution in the County's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the County's name.

Types of Investments	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Carrying</u> <u>Amount</u>	<u>Market</u> <u>Value</u>
Repurchase Agreements	\$ 1,080,000	\$	\$	\$ 1,080,000	\$ 1,188,000

Note 4. Receivable

The Muhlenberg Fiscal Court loaned \$200,000 to Re-Tek, Inc., on June 18, 2000, for the construction of a 20,000 square foot addition to an existing building. Terms of the agreement stipulate a 7-year repayment schedule at 3 percent interest. Re-Tek, Inc., is in substantial compliance with the terms of the agreement. As of June 30, 2001, the principal balance due was \$173,958.

Note 5. Short-Term Debt

On May 29, 2001, the Muhlenberg County Public Properties Corporation signed a \$1,250,000 promissory note agreement with Old National Bank for the construction of a new Justice Center. Terms of the agreement stipulate one principal payment of \$1,250,000 plus 4.29% interest on May 1, 2002.

MUHLENBERG COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 6. Long-Term Debt

- A. On January 19, 2000, the Muhlenberg County Fiscal Court issued \$6,895,000 General Obligation Improvement Bonds, Series 2000, for the construction of the Detention Center. These bonds are required to be paid fully within 20 years from the date of issue and are backed by the full faith and credit of the county. The bonds will mature as to principal beginning August 1, 2002.

Bonds outstanding as of June 30, 2001 of the Jail Fund totaled \$6,895,000. Debt service requirements are:

<u>Fiscal Year</u>	<u>Interest and Fees</u>	<u>Principal</u>
2002	\$ 384,618	\$
2003	378,843	210,000
2004	367,018	220,000
2005	354,724	225,000
2006	342,098	230,000
2007-2011	1,494,731	1,375,000
2012-2016	1,058,741	1,785,000
2017-2021	489,860	2,305,000
Thereafter	15,260	545,000
Totals	<u>\$ 4,885,893</u>	<u>\$ 6,895,000</u>

- B. On June 18, 2000, the Muhlenberg County Fiscal Court borrowed \$200,000 from the Kentucky Economic Development Finance Authority (KEDFA) for the purpose of loaning the funds to Re-Tek, Inc. for the construction of a 20,000 square foot addition to an existing building. Terms of the agreement stipulate annual payments to (KEDFA) of proceeds received from Re-Tek, Inc. The County is not in compliance with terms of the agreement. As of June 30, 2001, the principal balance due was \$200,000.

Debt service requirements of the General Fund are:

<u>Fiscal Year</u>	<u>Principal</u>
2001	\$ 26,042
2002	26,843
2003	27,669
2004	28,512
2005	29,398
2006-2007	61,536
Totals	<u>\$ 200,000</u>



MUHLENBERG COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 7. Capital Lease Agreement

On November 12, 1992, the Muhlenberg County Fiscal Court entered into a 20-year capital lease-purchase agreement with the Kentucky Association of Counties Leasing Trust Program for construction of waterlines. The principal amount borrowed was \$147,000 with an interest rate of 5.545%. The agreement requires monthly payments of interest and annual payments of principal. The outstanding balance as of June 30, 2001, was \$100,000. Capital lease payment requirements are:

<u>Due Date</u>	<u>Interest and Fees</u>	<u>Principal</u>
2002	\$ 6,336	\$ 7,000
2003	5,879	7,000
2004	5,395	8,000
2005	18,643	8,000
2006	3,541	9,000
2007-2011	10,671	49,000
2012	390	12,000
Totals	<u>\$ 50,855</u>	<u>\$ 100,000</u>

Note 8. Insurance

For the fiscal year ended June 30, 2001, Muhlenberg County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Muhlenberg County Jail Canteen Fund had income of \$40,155, less cost of goods sold of \$41,443, less other expenses of \$18,720, leaving a loss of \$20,008 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



MUHLENBERG COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,476,135	\$ 3,919,683	\$ 443,548
Road and Bridge Fund	1,139,250	1,096,571	(42,679)
Jail Fund	360,500	386,165	25,665
Local Government Economic Assistance Fund	441,500	413,549	(27,951)
<u>Special Revenue Fund Type</u>			
Job Training Fund	700,000	611,984	(88,016)
Rails To Trails Fund	213,000	169,842	(43,158)
Pennyrile Narcotics Task Force Fund	595,750	715,522	119,772
<u>Capital Projects Fund Type</u>			
Jail Construction Fund		163,873	163,873
Totals	<u>\$ 6,926,135</u>	<u>\$ 7,477,189</u>	<u>\$ 551,054</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,926,135
Add: Budgeted Prior Year Surplus			6,633,570
Less: Other Financing Uses			<u>(7,000)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 13,552,705</u>

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SCHEDULE OF OPERATING REVENUE





MUHLENBERG COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 1,222,626	\$ 1,222,626	\$	\$	\$
In Lieu Tax Payments	947,456	947,456			
Excess Fees	1,034,160	1,034,160			
Licenses and Permits	31,458	31,458			
Intergovernmental Revenues	3,474,707	1,977,979	1,496,728		
Charges for Services	255,981	255,981			
Miscellaneous Revenues	333,585	332,965	620		
Interest Earned	179,205	13,343		163,873	1,989
Total Operating Revenue	<u>\$ 7,479,178</u>	<u>\$ 5,815,968</u>	<u>\$ 1,497,348</u>	<u>\$ 163,873</u>	<u>\$ 1,989</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



MUHLENBERG COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,620,955	\$ 1,586,152	\$ 34,803
Protection to Persons and Property	1,312,200	1,257,715	54,485
General Health and Sanitation	742,100	722,217	19,883
Social Services	56,000	54,783	1,217
Recreation and Culture	160,800	138,390	22,410
Roads	1,879,500	1,610,139	269,361
Debt Service	5,800	5,752	48
Capital Projects	91,000	74,916	16,084
Administration	675,600	819,930	(144,330)
Total Operating Budget - General Fund Type	\$ 6,543,955	\$ 6,269,994	\$ 273,961
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease	7,000	7,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 6,550,955</u>	<u>\$ 6,276,994</u>	<u>\$ 273,961</u>

MUHLENBERG COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	\$ 913,000	\$ 755,012	\$ 157,988
Administration	595,750	594,772	978
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 1,508,750</u>	<u>\$ 1,349,784</u>	<u>\$ 158,966</u>

CAPITAL PROJECTS FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	\$ 5,500,000	\$ 4,321,685	\$ 1,178,315
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 5,500,000</u>	<u>\$ 4,321,685</u>	<u>\$ 1,178,315</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Muhlenberg County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- Reference 2001-1 The County Should Comply With Grant Agreements
- Reference 2001-2 The Coroner Should Be Properly Bonded
- Reference 2001-3 All Debt Should Be Properly Disclosed On The Quarterly Financial Statement



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muhlenberg County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 4, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Muhlenberg County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Muhlenberg County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Muhlenberg County's management. Our responsibility is to express an opinion on Muhlenberg County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muhlenberg County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Muhlenberg County's compliance with those requirements.

In our opinion, Muhlenberg County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Muhlenberg County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muhlenberg County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 4, 2002

## FINDINGS AND QUESTIONED COSTS





MUHLENBERG COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Muhlenberg County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Three instances of noncompliance material to the financial statements of Muhlenberg County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Muhlenberg County expresses an unqualified opinion.
6. No audit findings relative to the major federal awards programs for Muhlenberg County are reported in Part C of this schedule.
7. The programs tested as major programs were: Byrne Formula Grant Program CFDA #16.579 and Grants For Economic Development CFDA #11.300.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Muhlenberg County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

Reference 2001-1

The County Should Comply With Grant Agreements

During the performance of our audit, it came to our attention that the County is not in compliance with the terms of their grant agreement with Kentucky Economic Development Finance Authority (KEDFA). Terms of this agreement stipulate that any Project Proceeds resulting from a payment stream (such as monthly loan payments) shall be paid to the County and be deposited by the County in the Project Proceeds Account. Within forty-five (45) days of the end of the fiscal year, the County shall complete and forward to KEDFA a completed Project Proceeds Account Report. Any net Project Proceeds received by the County, which have been deposited in the Project Proceeds Account as of fiscal year-end shall be remitted by the County to KEDFA along with the completed Project Proceeds Account Report. We recommend the County comply with the terms of this grant agreement.

*Judge/Executive Rodney K. Kirtley's Response:*

*The County did not know of the aforementioned. However, a separate bank account has been established. The proper report has been received for KEDFA and is being filed with accumulated transactions and all receipts will be remitted by October 31, 2002.*

MUHLENBERG COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

Reference 2001-2

The Coroner Should Be Properly Bonded

Our review of the County Official bonds disclosed that the Coroner only has a two thousand dollars (\$2,000) bond. According to KRS 72.010 – Every coroner shall execute bond in the minimum amount of ten thousand dollars (\$10,000) with sureties approved by the Fiscal Court. The bond shall be recorded by the Fiscal Court in the office of the County Clerk. The fact that the constitutional oath has been taken and the approval of the bond shall be entered upon the records of the Fiscal Court. Premiums on the bond of the Coroner may be paid from county funds when appropriated by the Fiscal Court. No jailer, sheriff or sheriff's deputy, county judge/executive, clerk, or attorney shall be surety for the Coroner on his official bond. Every coroner shall have the authority to appoint deputy coroners. Deputy coroners shall execute a bond with sureties in accordance with the provisions of this section. We recommend the County ensure that the Coroner is properly bonded.

*Judge/Executive Rodney K. Kirtley's Response:*

*The Coroner does not handle any funds. The \$10,000 bond has been acquired.*

Reference 2001-3

All Debt Should Be Properly Disclosed On The Quarterly Financial Statement

During our audit, it was noted that all debt was not being properly disclosed on the fourth quarter financial statement. The County's loan with the Kentucky Economic Development Finance Authority or the Public Properties Corporation's promissory note with Old National Bank were not included on the fourth quarter financial statement. Also, the County's General Obligation Improvement Bonds, Series 2000, original and outstanding principal balances were incorrectly disclosed. We recommend the County properly disclose all debt on the financial statement in order to avoid the financial statement being misleading.

*Judge/Executive, Rodney K. Kirtley's Response:*

*The PPC funds were not incorporated into the County's budget so the County Treasurer did not feel this note should be shown on the Quarterly report. However, all future reports will show this obligation. The County's General Obligation Bonds amount has been adjusted to agree with auditor's balances and will be correct on all future reports.*

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
 AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



MUHLENBERG COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Commerce</u>		
Economic Development Administration Job Training Center (CFDA #11.300)	01-19-04210	\$ 455,399
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: Pennyrile Narcotics Task Force (CFDA #16.579)	6129-N2-12/01	446,078
<u>U.S. Department of Transportation</u>		
Transportation Enhancement Muhlenberg Rails To Trails (CFDA #20.205)	C-99108045	118,252
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Applicable	<u>9,818</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 1,029,547</u></u>

MUHLENBERG COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

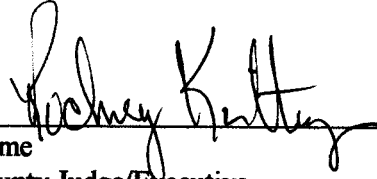
**CERTIFICATION OF COMPLIANCE**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**MUHLENBERG COUNTY FISCAL COURT**

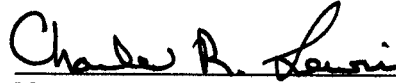
**Fiscal Year Ended June 30, 2001**

The Muhlenberg County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Rodney K. Hitt", written over a horizontal line.

Name

County Judge/Executive

A handwritten signature in black ink, appearing to read "Charles R. Lewis", written over a horizontal line.

Name

County Treasurer



